

Timber Update 2011

A lender's look into
the financial state
of Minnesota's
timber producers

Rich Miska
November 30th, 2011



Today's Agenda

- ❖ About AgStar
- ❖ Industry Overview
 - ❖ Market Review
 - ❖ Reasons for Optimism
 - ❖ Reasons for Concern
- ❖ Volatility
 - ❖ Fuel
 - ❖ Weather
 - ❖ Stumpage
 - ❖ Markets
- ❖ The Financial State of Minnesota's Loggers
 - ❖ A Lender's Perspective
 - ❖ Financial Health Generalizations
 - ❖ Indicators (subjective and objective)
 - ❖ Access to Credit
- ❖ Summary



AgStar Financial Services

- ❖ Member owned financial services provider
- ❖ Currently serving more than 23,000 member clients
- ❖ Approximately \$8.0 Billion in Assets Managed



Agstar and logging

- ❖ Specialize in serving agricultural producers including loggers
- ❖ \$135 Million in loans and leases to the timber industry
- ❖ \$53 Million in logging equipment financed (85 MN logging accounts, 270 total logging accounts)
- ❖ Dedicated to on-site delivery

Mission: *“Enhancing Life in Agriculture and Rural America”*



MARKETS



Pulp / Paper



Building Products



Biomass

Pulp / Paper Markets (our Backbone)



BOISE



Building Products



Biomass Markets



Reasons for Optimism

- Overall wood consumption up (looks like 2009 was the bottom)
- Housing starts trending up (very modestly)
- 7/16 OSB prices up slightly over same time last year
- Low interest rates
- Chinese and Japanese Markets for logs and lumber very strong
- Tariffs on Chinese and Indonesian coated sheet paper
- UPM/Blandin and Forest Capital Partners committing their MN land base to the timber industry

Reasons for Concern

- Instability in paper markets (total printing/writing paper shipments are down 8% year over year)
- Pulp prices trending down
- Regulatory constraints on logging operations
- Shortage of low houred used equipment
- Shortage of trucking capacity

Volatility



\$\$ Stumpage \$\$

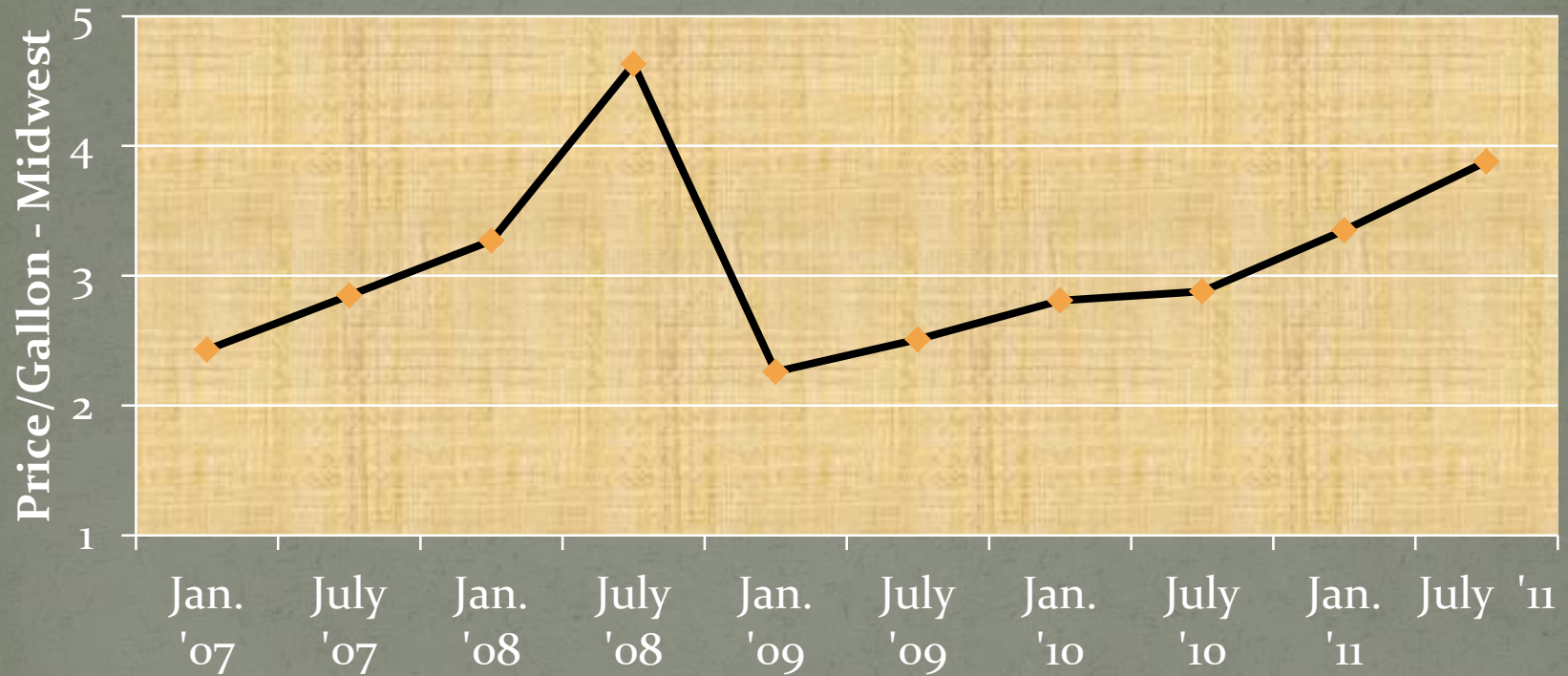


Weather



Volatility in Fuel prices

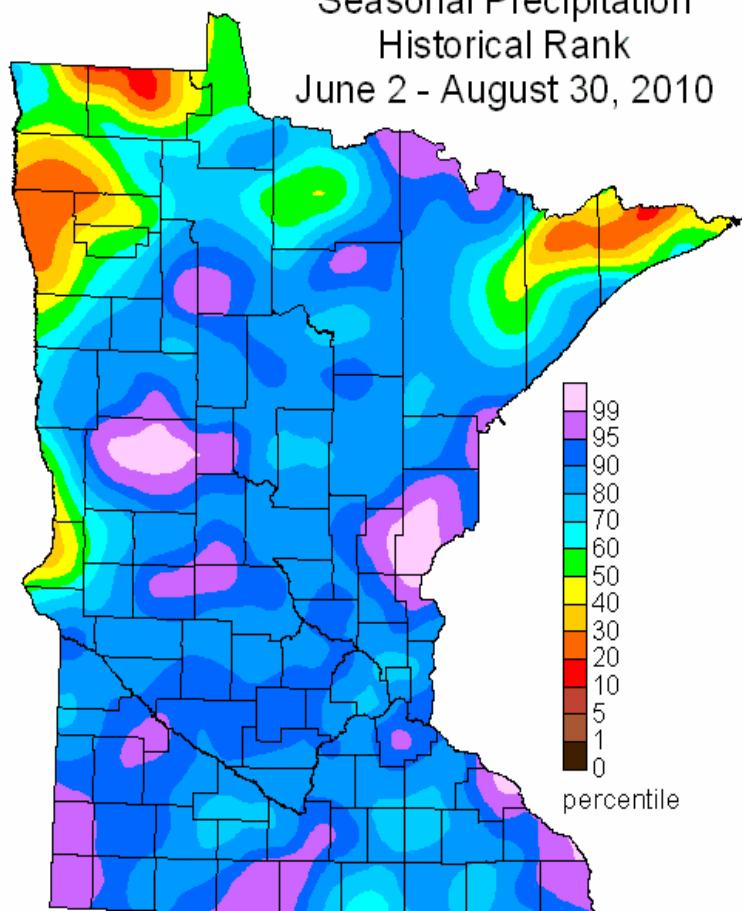
On-Road Diesel Pricing



Diesel Pricing Source: US Dept of Energy, Energy Information Administration

Volatility in Weather Conditions

Seasonal Precipitation
Historical Rank
June 2 - August 30, 2010



DNR Waters - State Climatology Office, 08-30-2010

January 19, 2011

Dave Epperly, Director
DNR - Forestry
500 Lafayette Rd.
St. Paul, MN 55155

RE: Timber Sale Extension Request

Dear Director Epperly:

As you know weather conditions this winter are preventing logging many timber sales. After a very wet fall the snow came early and in large quantities. This blanket of snow on top of very wet soils has prevented freezing down many sales. While we have had some cold weather it has not been cold enough or cold long enough to penetrate the snow even on sales that our members have been attempting to freeze.

We request that all sales be extended immediately at no charge to the sale owner.

Our members are currently spending time and money attempting to freeze down and operate sales. The money is being spent on fuel, equipment and employee wages. We do not believe that this time and money will produce any wood this winter - it will simply be a cost that some of our members cannot afford.

Targeting our efforts for the balance of the winter on sales that can be operated will produce more stumpage revenues for your agency. It will also produce more wood for our mills and eliminate spending money on sales that we will not be able to harvest this winter.

While we understand the fiscal issues facing all levels of government, we request that these extensions be granted at no cost. Many of our members have already absorbed significant costs attempting to freeze down these sales. Charging for extensions on top of these costs only adds to the financial burdens on our members as we slowly work our way out of the recession.

Extending all timber sales will also allow your agency to meet its silvicultural objectives without the potential for problems resulting from current conditions. We believe that current conditions meet the requirements for extensions in law and policy.

We appreciate the fact that your agency has worked with us on these and other issues in the past and look forward to a favorable response to this request.

Sincerely,

TPA Executive Committee

Mike Warren, President
M&R Chips
Grand Rapids

Kit Hasbargen
Hasbargen Logging
Birchdale

Scott Pittack
Pittack Logging
Bovey

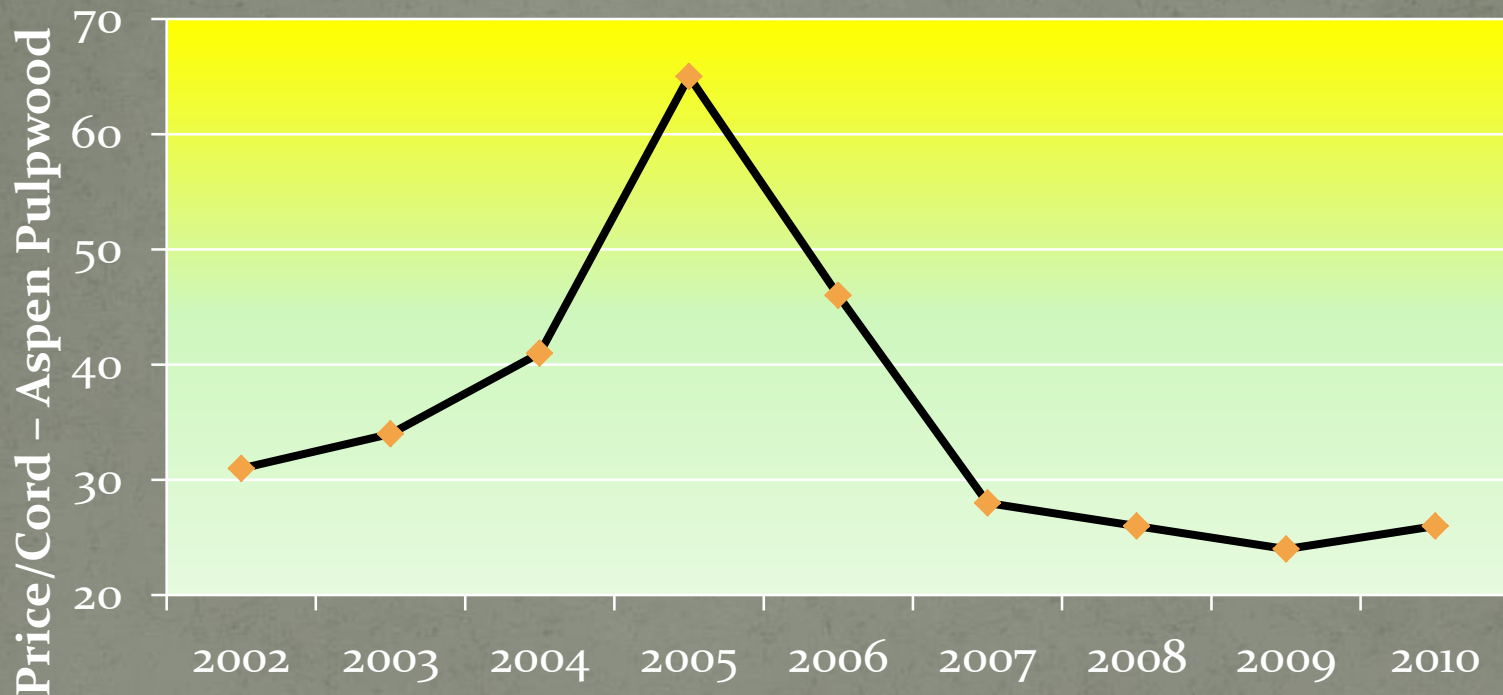
Dave Berthiaume
Berthiaume Logging
Cloquet

Mike Reiger
Reiger Logging
Northome

cc Tom Landwehr, DNR Commissioner

Volatility in Stumpage prices

MN Public Stumpage Prices (Aspen)



Source: MN DNR (estimates for 2010)

Volatility in Markets

Duluth News Tribune

Owner of Duluth paper mill files for bankruptcy

Ohio-based NewPage Corp., which owns the West Duluth paper mill and is the largest North American maker of coated papers, filed for bankruptcy Wednesday.

St. Cloud Times

Verso announces 175 layoffs in Sartell

SARTELL — Two of the three machines at Verso Paper's Sartell mill have been cranking out paper for more than 100 years. Within two months, however, they will go silent, mothballed in a move announced Tuesday that will cut jobs for 175 people at the city's No. 1 taxpayer and No. 2 employer.



A Lender's Perspective



The Anatomy of the Balance Sheet

Current Assets

Your “liquid” assets.

Intermediate Assets

Assets not normally sold during the year

Long Term Assets

Real Estate and Improvements

Total Assets

Current Liabilities

Due in less than one year

Intermediate Liabilities

Due in 1 to 10 years

Long Term Liabilities

Due in more than 10 years

Total Liabilities



Revised: 8/04/2009

Key Financial Signals

Adapted from Dr. David M. Kohl, Professor Emeritus
Agricultural Economics, Virginia Tech, Blacksburg, VA

	Your Unit	Target	Green = Good	Yellow = Some Risk	Red = Improvement Needed
Current Ratio		>1.25:1	>1.15:1	1:1 to 1.15:1	<1:1
Equity to Asset Ratio		> 60%	>60%	60% to 40%	<40%
Cash Logging Oper Exp / VLP		< 65%	<65%	65% to 80%	>80%
Term Debt Coverage Ratio		> 2.00	>1.50	1.15 to 1.50	<1.15
Credit Score		700 +	>700	700 to 650	<650

AgStar Financial Services Guidelines

Measurement	Your Unit	Guideline
Current Ratio		1 to 1
Equity to Asset Ratio		50%
Capital Debt Repayment Capacity		115%
Working Capital / AGI		10%

Expense Ratios

Measurement	Your Unit	Guideline
Operating Expense Ratio		55-65%
Depreciation Expense Ratio		10-15%
Interest Expense Ratio		<15%
Net Logging Inc From Operations Ratio		10-15%
Total	100%	100%

Comments

Disclaimer

The Financial Review provided is based on information provided to AgStar by the client. The accuracy of the calculations and the analysis is dependent upon the accuracy of the information supplied. This information is intended solely for the use of the client and should not be relied upon by third parties. If any representations or warranties are made to third parties relating to the correctness or accuracy of the information, such warranties are made to third parties are solely those of the client.

Logger Financial Health

- Depleted working capital
- Operating losses
- Erosion of equity
- Significant differences between larger, well managed operations and smaller, “mom and pop” operations.

Indicators

- Delinquencies
- Loggers exiting the industry
- Lenders pull back from the industry

Access to Credit

- Some lenders pulling back from the industry
- Multiple lending sources are available
- Ability to secure credit is affected by historic profitability and current financial strength

In Summary...

